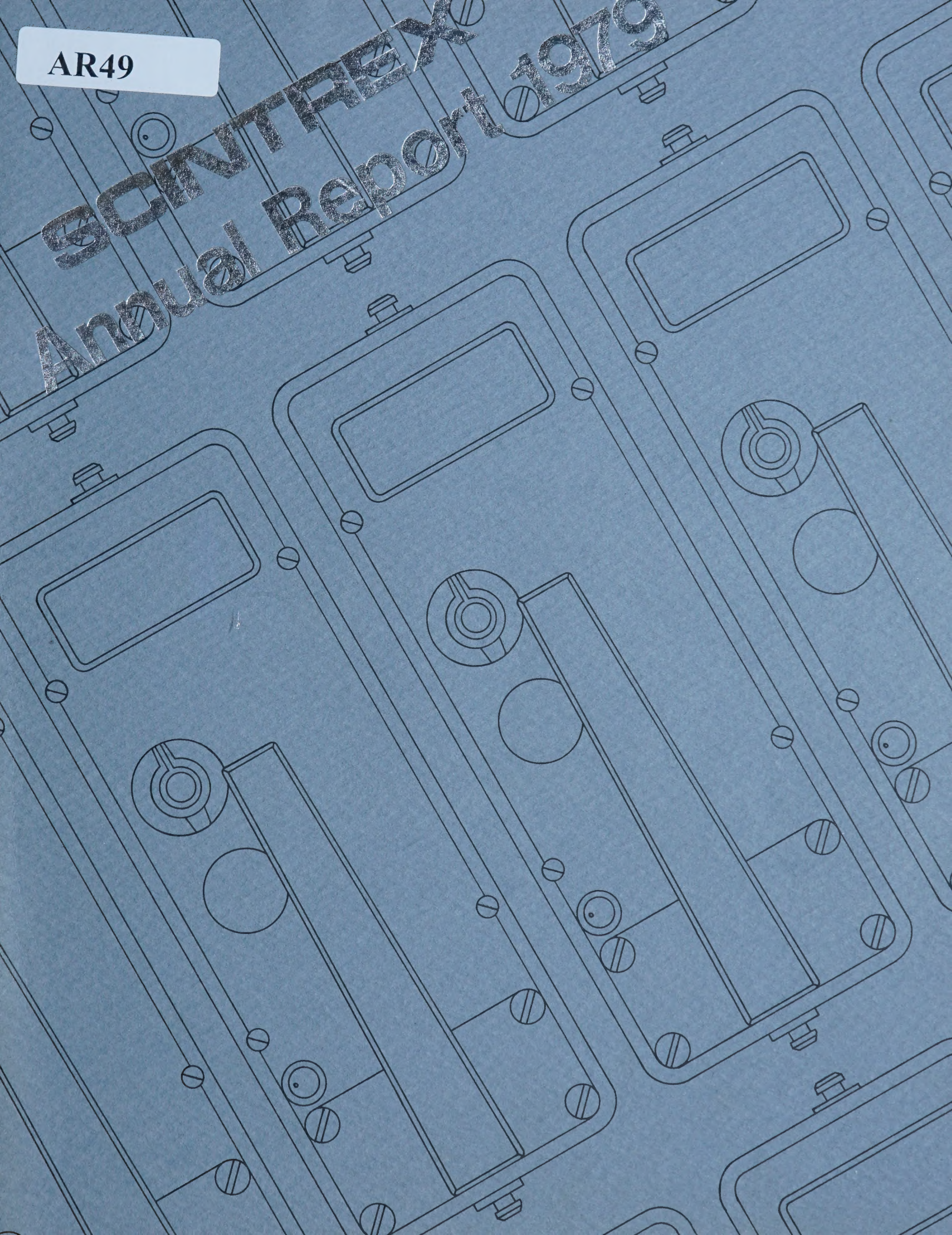


AR49

SCINTIFEX

Annual Report 1979



Five Year Financial Review — Years Ended January 31

	1979	1978	1977	1976	1975
	(thousands of dollars)				
Sales	9,007	5,850	4,938	3,883	3,778
Income (loss) before extraordinary items	726	191	62	(28)	(227)
Net income (loss)	827	357	202	94	(465)
Cash flow from operations	1,071	538	297	305	160
Research and development expenses (net)	757	580	432	311	233
Working capital	1,700	1,271	1,025	749	283

Common Share Data

Income (loss) before extraordinary items	\$ 0.81	\$ 0.20	\$ 0.05	\$ (0.04)	\$ (0.28)
Net income (loss)	\$ 0.92	\$ 0.39	\$ 0.20	\$ 0.07	\$ (0.55)
Cash flow from operations	\$ 1.20	\$ 0.60	\$ 0.32	\$ 0.33	\$ (0.15)
Shareholders' equity at book value	\$ 3.10	\$ 2.17	\$ 1.79	\$ 1.61	\$ 1.54
Return on shareholders' average investment	35.3%	19.8%	12.5%	5.2%	—
Weighted average number of shares outstanding	874,324	858,156	857,765	853,535	857,676

The Company

Scintrex Limited is a Canadian-owned company engaged in the research, design and manufacture of geophysical and geochemical exploration instrumentation, nuclear reactor monitoring devices, and other scientific products. The company also provides ground and airborne exploration and consulting services.

Scintrex's products, services and know-how have contributed directly to numerous mineral discoveries around the world. Over 75% of the company's sales are exported to over fifty different countries. Among Scintrex's clients are major mining companies, the United Nations, and governmental agencies in Canada and abroad.

Since the company's inception in 1960, in-house research and development has been the primary source of new products and services. Scintrex's scientists are engaged in a variety of development programs ranging from basic research in pure physics and chemistry directed to improving exploration techniques, to the adaptation of new developments in electronics for the production of more accurate and reliable instrumentation.

Annual Meeting

The Annual General Meeting will be held June 20, 1979 at 10 a.m. in the Manitoba Room of the Royal York Hotel, Toronto.

Report to the Shareholders

It is gratifying to report that Scintrex's fiscal year which ended January 31, 1979 was a very successful one, resulting in record sales and profits. In addition, during the year the company expanded its production facilities substantially and added to personnel. As a result, Scintrex's production capability has been brought into line with the increased level of sales.

Financial

Consolidated sales were up 54% to \$9,007,000 and income after taxes and before extraordinary items was up 280% to \$726,000 (81¢ per share) from \$191,000 (20¢ per share) for the previous year. After utilization of tax losses carried forward, net income was \$827,000 (92¢ per share) and \$357,000 (39¢ per share) respectively.

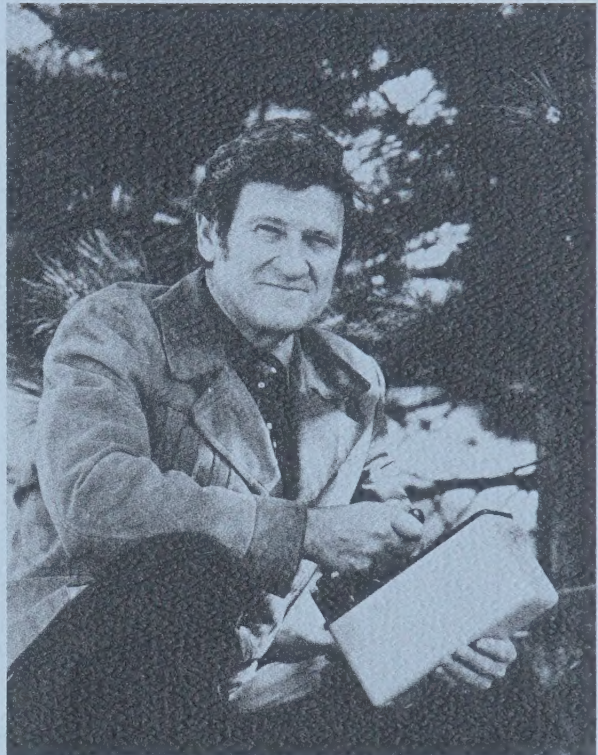
Working capital at year-end was \$1,705,000, an increase of about \$433,000 in the year. The net cash position improved by \$482,000 during the year, which is a considerable achievement in view of the investment of \$853,000 in additional fixed assets and \$495,000 in inventories.

Earth Sciences Division

Shipments of earth science instruments increased by 48% over the previous year, representing a doubling of shipments in two years. Exports comprised 73% of total sales, including sales to the United Nations and agencies of foreign governments.

There was strong demand for Scintrex's uranium exploration equipment, particularly in North America where a uranium boom is still in progress. Sales of electrical and magnetic prospecting equipment rose in unison, reflecting growing foreign and North American demand and higher prices for base metals.

The UA-3 uranium analyser, based on the phenomenon of laser-induced fluorescence gained wide acceptance as a basic analytical tool for the field and laboratory. The analyser has



been used effectively in exploration, health physics and in process control in uranium mills.

Sales of Scintrex's geophysical contracting services increased in all markets served, with the largest percentage growth being achieved in Australia. The HEM-802 dual-frequency helicopter electromagnetic system was introduced during the year on contract surveys in the Middle East, Japan and North America. It has proven to be a low-noise, reliable system yielding high quality geophysical data for base metal exploration and conductivity mapping.

The Tridem electromagnetic system installed in a Canso aircraft operated by Kenting Earth Sciences Ltd. was fully engaged throughout the field season (April to November). The aircraft flew surveys for base metals, uranium and lignite in North America. This survey system has gained wide acceptance in the North American exploration industry through its unique combination of high resolution (low-level) electromagnetic, magnetic and radiometric data production. The long range of the Canso makes the survey system efficient. This system has made a significant contribution to Scintrex's profitability during the year.

In Australia, revenue from geophysical services was 66% higher than the previous year. Ground surveys included extensive magnetic induced polarization activity, particularly in a format known as Rapid Reconnaissance Magnetic Induced Polarization (RRMIP). For airborne work the company introduced, late in the year, a combined magnetic/radiometric system with full digital recording which was used to execute contracts with major exploration groups.

Research and Development

Net R & D expenditures after government grants were \$754,000, an increase of 30% over the previous year. Due to the greater percentage increase in sales, R & D constituted 8.4% of sales this year versus 10% for the year earlier.

R & D activity was concentrated on analytical instruments, electromagnetic systems and gamma radioactivity measuring devices. Work



The new BGS-4 Scintillation Counter, introduced in March 1979, is used in uranium exploration.

was also done in the airborne magnetometer field, related particularly to the provision of a fully geophysically equipped Twin Otter aircraft for the People's Republic of China.

Improvements were made to the UA-3 uranium analyser. Investigations were carried out in Scintrex's plant and at York University where this device was applied to the analysis of other elements (in solution) of potential interest.

A research program on lead isotope analysis using a special atomic absorption spectrometer has reached a successful stage of development. Analyses can now be made for ^{206}Pb , ^{207}Pb and ^{208}Pb with a $\pm 5\%$ relative accuracy, which is suitable for uranium exploration usage. From the limited analyses obtained to date, this application shows promise when used as a localizer for the source of uranium geochemical anomalies.



Scintrex drill hole logging systems such as this one are used for uranium grade logging.

In the electromagnetic area, Scintrex designed and produced an updated version of the Tridem system as part of the complex airborne system assembled for the People's Republic of China. A new, universally tunable VLF system was also developed and built for the same customer. The HEM-802 dual frequency helicopter-borne electromagnetic system was perfected and put into active survey use during this period. This system operates simultaneously on 735 Hz and 3220 Hz frequencies.

In radiometrics, work was carried out on an automatic spectral logging system employing electronic speed control and providing both digital and pseudo-analogue output on the same printer. Several of these units have been produced.

Contract Instrumentation Division

Deliveries of contract instrumentation for nuclear reactors increased by 89% over the previous year, with shipments being made to users of Candu-type reactors in Canada, Argentina and Korea. The steady build-up of repeat orders for these devices has resulted in the Division making a stronger contribution to the company's results.

Outlook

At January 31, 1979 the backlog of orders for goods and services was about \$4.5 million, approximately \$1 million higher than a year earlier. This level was achieved despite a 48% increase in the value of shipments made during the year.

The Tridem Canso aircraft is again heavily booked for the current field season and it should again make a strong contribution to overall profits. Experienced survey personnel have been hired to expand the company's North American Survey Contracting Division. The development phase of at least five new instruments is expected to be completed this year, three of which have been worked on for more than two years. These new devices should provide new sales potential, of course. The equipping of a Twin Otter aircraft with a complete geophysical system for the Bureau of Geology of the People's Republic of China is a major Scintrex contract started in 1977



De Havilland Twin Otter equipped for multi-sensor geophysical surveying by Scintrex for the People's Republic of China.



Dr. Seigel with Chinese delegation.

which we expect to complete during the first half of 1979. Special engineering developed during this contract has resulted in improved airborne geophysical equipment. This work has produced several new products which are being successfully marketed.

The completion of our 16,000 sq. ft. plant expansion has given us the space for larger production, survey and quality control facilities, and has already resulted in improved operating efficiencies.

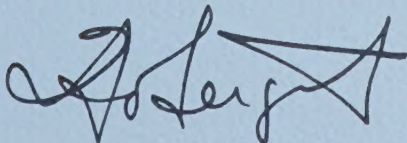
An IBM System 34 computer was recently installed. This computer is being used for a variety of purposes, including production control, accounting, marketing, and for the scientific requirements of our R & D laboratory. In particular, it is expected that the new computer will yield tangible benefits for Scintrex in the critical area of inventory control.

The size of the company's order backlog and steady level of incoming business support management's view that 1979 will be both busy and profitable for Scintrex, although it may not experience the exceptional percentage gains in sales and profits of the past year.

In closing, I should like to thank our capable and hard-working employees for their efforts in making the past year a successful one.

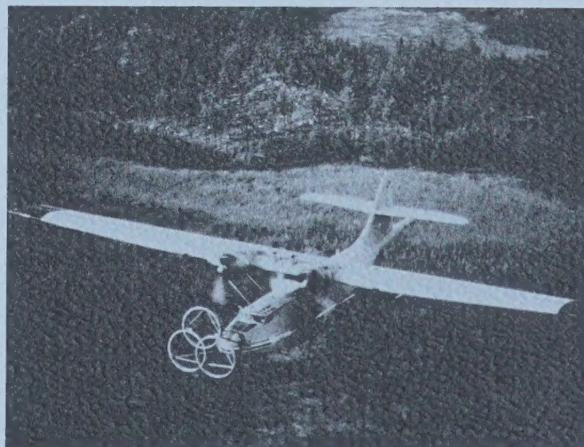
I would like to express my appreciation for the warm-hearted guidance of Dr. Franc. R. Joubin, who has been a Scintrex director since 1973 and who regretfully resigned January 1, 1979.

On behalf of the Board of Directors,



Harold O. Seigel, Ph.D., P.Eng.
President

May 15, 1979



*Canso survey aircraft with Scintrex Tridem
Electromagnetic System.*

Consolidated Balance Sheet — January 31

Assets	1979	1978
Current:		
Cash	\$ 66,590	\$ 68,609
Accounts receivable	1,627,004	1,144,986
Inventories (Note 2)	2,221,542	1,727,000
Survey contracts in progress	198,461	194,155
Prepaid expenses and sundry assets	24,400	40,222
	<u>4,137,997</u>	<u>3,174,972</u>
Property, plant and equipment (Note 3)	1,573,362	1,124,991
Other (Note 4)	215,024	257,318
	<u><u>\$5,926,383</u></u>	<u><u>\$4,557,281</u></u>
Liabilities		
Current:		
Bank indebtedness (Note 5)	\$ 333,538	\$ 818,283
Customer deposits	326,883	122,133
Accounts payable and accrued liabilities	1,458,641	934,760
Income taxes payable	309,082	23,909
Current portion of long-term debt	5,137	4,582
	<u>2,433,281</u>	<u>1,903,667</u>
Long-term debt (Note 6)	<u>456,420</u>	<u>461,557</u>
Shareholders' Equity		
Capital stock (Note 7)	1,689,204	1,689,204
Retained earnings	1,368,584	541,995
	<u>3,057,788</u>	<u>2,231,199</u>
Less common stock in treasury, at cost (Note 7)	21,106	39,142
	<u><u>3,036,682</u></u>	<u><u>2,192,057</u></u>
	<u><u>\$5,926,383</u></u>	<u><u>\$4,557,281</u></u>

On behalf of the Board:
HAROLD O. SEIGEL, Director
ALFRED J. SHAUL, Director

See accompanying notes.

Consolidated Statement of Income — Year Ended January 31

	<u>1979</u>	<u>1978</u>
Sales	<u>\$9,007,473</u>	<u>\$ 5,849,762</u>
Cost of sales including selling, general and administrative expenses	6,629,839	4,470,160
Research and development expenses	886,324	694,836
Depreciation and amortization	345,787	327,606
Interest on long-term debt	53,241	49,579
Other interest	77,488	52,353
Loss on disposal of property	—	19,023
	<u>7,992,679</u>	<u>5,613,557</u>
Less research and development grants	129,795	114,474
	<u>7,862,884</u>	<u>5,499,083</u>
Income before income taxes	1,144,589	350,679
Income taxes	419,000	159,700
Income before extraordinary items	725,589	190,979
Extraordinary items (Note 9)	101,000	166,244
Net income	<u>\$ 826,589</u>	<u>\$ 357,223</u>

Earnings per share: (See note 10)

See accompanying notes.

Consolidated Statement of Retained Earnings — Year Ended January 31

	1979	1978
Retained earnings, beginning of year	\$ 541,995	\$ 214,247
Income for the year	<u>826,589</u>	<u>357,223</u>
	1,368,584	571,470
Dividends paid on preference shares	<u>—</u>	<u>29,475</u>
Retained earnings, end of year	<u><u>\$1,368,584</u></u>	<u><u>\$ 541,995</u></u>

Consolidated Statement of Changes in Financial Position — Year Ended January 31

	1979	1978
Funds provided:		
Income before extraordinary items	\$ 725,589	\$ 190,979
Depreciation and amortization	345,787	327,606
Loss on sale of property	<u>—</u>	<u>19,023</u>
Working capital from operations	1,071,376	537,608
Income tax reduction arising from utilization of prior years' losses	101,000	152,000
Proceeds from sale of property, equipment and other assets	101,555	219,654
Proceeds from disposition of treasury stock	<u>18,500</u>	<u>—</u>
	1,292,431	909,262
Funds used:		
Additions to property and equipment	853,419	559,631
Retirement of long-term debt	5,137	72,044
Purchase of treasury stock	464	2,205
Dividends paid on preference shares	<u>—</u>	<u>29,475</u>
	859,020	663,355
Increase in working capital	433,411	245,907
Working capital, beginning of year	<u>1,271,305</u>	<u>1,025,398</u>
Working capital, end of year	<u><u>\$1,704,716</u></u>	<u><u>\$ 1,271,305</u></u>

See accompanying notes.

Notes to Consolidated Financial Statements — January 31, 1979

1. Summary of significant accounting policies:

Principles of consolidation:

These statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned.

Foreign exchange:

Amounts in foreign currencies have been translated substantially at rates existing at year end except for properties and equipment which are at rates prevailing on dates of acquisition.

Inventories:

Inventories are valued at the lower of cost and net realizable value.

Survey contracts in progress:

The percentage of completion method of accruing profit on survey contracts in progress is used, with anticipated losses being provided in full.

Property, plant and equipment:

These assets are carried at cost. Depreciation is provided on the straight-line basis at the rates shown in Note 3.

Other assets:

Commencing with the 1975 fiscal year, the excess of cost of subsidiary over book value on acquisition is being amortized on the straight-line method over 10 years. Patents and processes are being amortized on the straight-line method over 10 years.

2. Inventories:

	<u>1979</u>	<u>1978</u>
Raw materials	\$ 516,588	\$ 427,017
Work in process	1,305,253	1,073,837
Finished goods	<u>399,701</u>	<u>226,146</u>
	<u>\$2,221,542</u>	<u>\$1,727,000</u>

3. Property, plant and equipment:	<u>Rates of depreciation</u>	<u>1979</u>	<u>1978</u>
Building	5%	\$ 776,802	\$ 505,396
Equipment	10% to 33⅓%	<u>2,106,342</u>	<u>2,046,336</u>
		2,883,144	2,551,732
Less accumulated depreciation		<u>1,399,711</u>	<u>1,516,670</u>
		1,483,433	1,035,062
Land		<u>89,929</u>	<u>89,929</u>
		<u><u>\$1,573,362</u></u>	<u><u>\$1,124,991</u></u>
Depreciation expense for year		<u><u>\$ 300,067</u></u>	<u><u>\$ 281,886</u></u>

4. Other assets:	<u>1979</u>	<u>1978</u>
Patents and processes, at cost less amortization	\$ 46,423	\$ 54,997
Excess of cost of subsidiary over book value on acquisition less amortization	<u>168,601</u>	<u>202,321</u>
	<u><u>\$ 215,024</u></u>	<u><u>\$ 257,318</u></u>
Amortization for the year amounted to	<u><u>\$ 45,720</u></u>	<u><u>\$ 45,720</u></u>

5. Bank indebtedness:

The bank indebtedness is secured by a floating charge on all the assets of the company.

6. Long-term debt:

<i>Scintrex Limited:</i>	<u>1979</u>	<u>1978</u>
11¾%, secured by first mortgage on the land and building, maturing September 1, 1980	\$ 461,557	\$ 466,139
Less amounts due within one year	<u>5,137</u>	<u>4,582</u>
	<u><u>\$ 456,420</u></u>	<u><u>\$ 461,557</u></u>

The aggregate amount of principal payments required in each of the next two fiscal years is estimated as follows:

1980	\$ 5,137
1981	456,420

7. Capital stock:

Authorized:

350,000 6% Cumulative, non-voting, convertible, preference shares, par value \$1 each

3,000,000 Common shares, no par value

	Preference		Common		Total consideration
	No. of shares	Par value	No. of shares	Consideration	
<i>Issued:</i>					
Outstanding at beginning and end of year	<u>327,500</u>	<u>\$327,500</u>	<u>885,015</u>	<u>\$1,361,704</u>	<u>\$1,689,204</u>
Common stock in treasury, at cost:					
January 31, 1979			<u>5,174</u>	<u>\$ 21,106</u>	
January 31, 1978			<u>28,109</u>	<u>\$ 39,142</u>	

Preference shares:

The preference shares may be converted at any time by the holder or holders thereof into fully-paid common shares (as presently constituted) of the company on the basis of one common for two preference shares. Dividends on these 6% cumulative preference shares are payable semi-annually on the last days of July and January of each year. These shares are non-voting unless the company has failed to pay dividends for a period of two years. As of January 31, 1979 the last four semi-annual dividends aggregating \$39,300 are in arrears.

Employee stock option plan:

15,000 common shares remain under the company's revised 1971 Incentive Stock Option Plan. These options may be exercised during the three year period terminating December 31, 1980 at a price of \$0.80 per share.

8. Remuneration of directors and senior officers:

Total remuneration paid to directors and senior officers amounts to \$221,938 for the year (\$202,872 in 1978).

9. Extraordinary items:

	<u>1979</u>	<u>1978</u>
Reduction of income taxes on application of losses of prior years	\$101,000	\$152,000
Gain on disposal of shares in Seigel Asociados S.A. de C.V. — Mexico	<u>—</u>	<u>14,244</u>
	<u>\$101,000</u>	<u>\$166,244</u>

10. Earnings per share:

Earnings per share are calculated using the weighted average common shares outstanding — 874,324 (1978 — 858,156).

	<u>1979</u>	<u>1978</u>
Income before extraordinary items	81 cents	20 cents
Net income	92 cents	39 cents

Fully diluted earnings per share which would result if all the 6% preference shares were converted into fully paid common shares would be:

	<u>1979</u>	<u>1978</u>
Income before extraordinary items	70 cents	19 cents
Net income	80 cents	35 cents

Auditors' Report

To the Shareholders of Scintrex Limited

We have examined the consolidated balance sheet of Scintrex Limited as at January 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 31, 1979 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
April 6, 1979.

LAVENTHOL & HORWATH,
Chartered Accountants.

Directors

Harold O. Seigel, Ph.D., P.Eng., President
Alfred J. Shaul, Q.C., Secretary
William L. Seigel, C.A., Consultant
Gerald Stork, C.A., P.Eng., Vice President
Jon G. Baird, P.Eng., Vice President
Harold I. Schiff, Ph.D., Professor of Chemistry,
York University

Officers

Harold O. Seigel, Ph.D., P.Eng.,
President
Gerald Stork, C.A., P.Eng.,
Vice President, Finance and Administration
Jon G. Baird, B.Sc., P.Eng.,
*Vice President and General Manager,
Earth Science Division*
Alfred J. Shaul, Q.C.,
Secretary
Valentine Burda, M.Sc.,
Vice President
Anthony W. Howland-Rose, M.Sc.,
Vice President

Solicitor

Alfred J. Shaul, Q.C.

Bankers

Bank of Nova Scotia

Auditors

Laventhol & Horwath

Transfer Agent and Registrar

Guaranty Trust Company of Canada

Stock Listing

Toronto Stock Exchange, symbol "SCT"

Scintrex Limited

222 Snidercroft Road
Concord, Ontario, Canada L4K 1B5
Telephone: (416) 669-2280
Telex: 06-964570

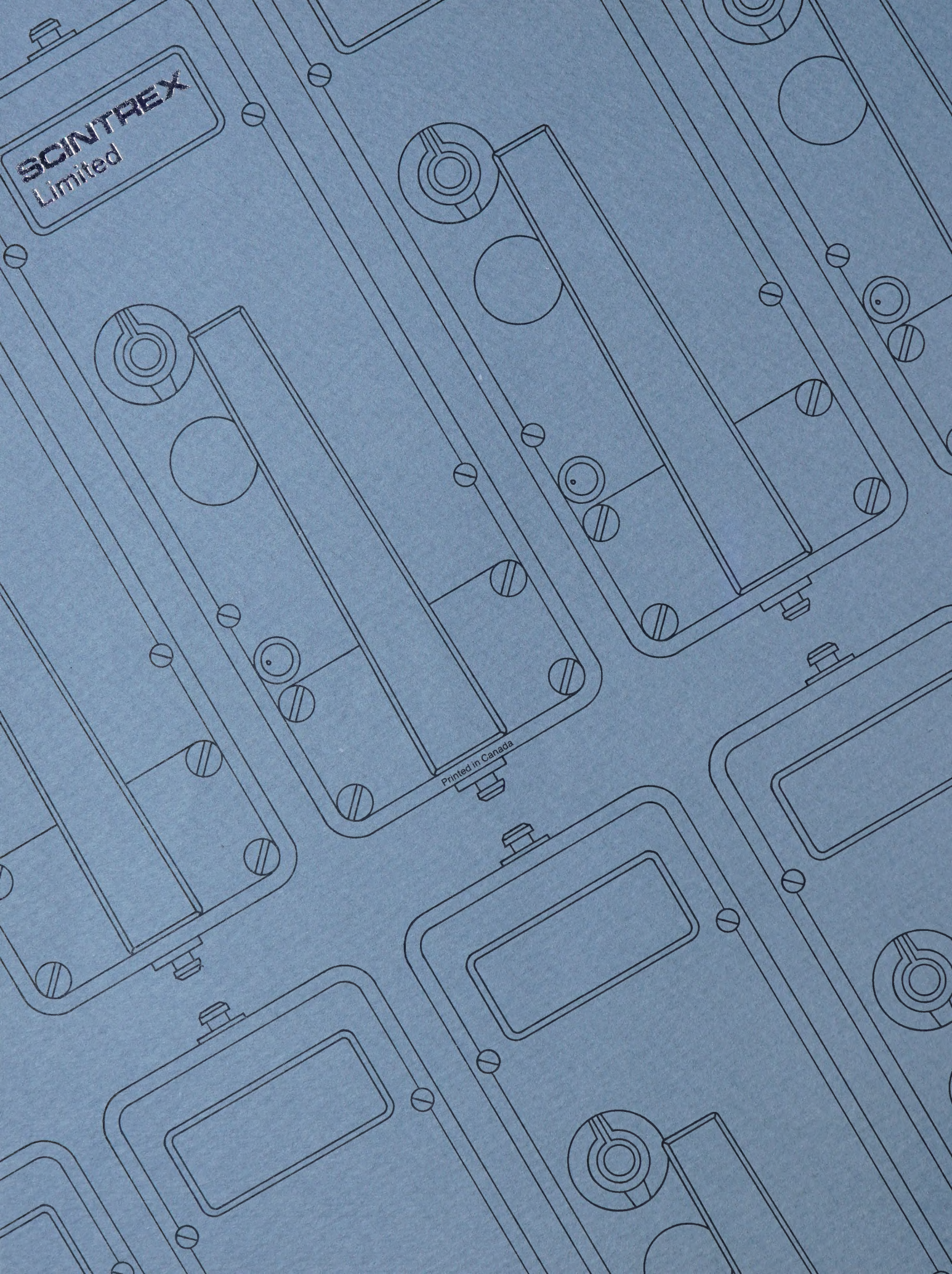
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Telex: 00388361



SCINTREX
Limited

Printed in Canada

SCINTREX Limited and Subsidiaries
**Consolidated Statement of Changes in
 Financial Position**
Six Months ended July 31
 (Unaudited)

	<u>1979</u>	<u>1978</u>
Funds provided:		
Income before extraordinary item	\$ 400,214	\$ 309,833
Depreciation and amortization	<u>218,207</u>	<u>189,887</u>
Working capital provided from operations	618,421	499,720
Income tax reduction arising from utilisation of prior years' losses	20,000	73,000
Proceeds from sale of property, equipment and other assets	<u>2,800</u>	<u>14,592</u>
	<u>641,221</u>	<u>587,312</u>
Funds used:		
Additions to equipment and other assets	383,792	241,741
Retirement of long-term debt	<u>2,495</u>	<u>2,544</u>
	<u>386,287</u>	<u>244,285</u>
Increase in working capital	254,934	343,027
Working capital, beginning of period	<u>1,704,716</u>	<u>1,271,305</u>
Working capital, end of period	<u>\$1,959,650</u>	<u>\$1,614,332</u>

SCINTREX
 Interim Report

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**for the six months
 ended July 31, 1979**

Report to Shareholders

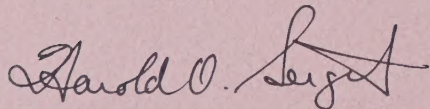
Scintrex's operating results for the six months ended July 31, 1979 continued to set new records. Sales were \$5,329,000, up 28% over the same period in 1978. Income after taxes, before tax losses carried forward, was \$400,000 (44¢ per share), 29% higher than a year earlier. Working capital at the end of the period was \$1,960,000 compared to \$1,614,000 in the previous year.

The improvement in the company's performance is due primarily to increased shipments of exploration equipment and nuclear reactor instrumentation as well as to stronger survey activity in Australia.

Research and development expenditures of \$529,000 for the period were up 33% from the previous year. They represent 10% of total sales, which is the budgeted figure. These expenditures continue to be fully expensed as incurred.

The new IBM System 34 computer used for inventory and production control has greatly improved operating efficiency. This system combined with the recent plant addition has contributed to a 33% increase in the shipment of instruments over the same period in 1978. As a result of these improvements, we have been able to bring our production rate more in balance with new orders, which has reduced the backlog of instruments and services to \$3.5 million.

Management expects Scintrex to maintain its favourable operating performance for the rest of this fiscal year.



Harold O. Seigel, Ph.D., P.Eng.
President

September 11, 1979

SCINTREX Limited and Subsidiaries **Consolidated Statement of Earnings** **Six Months ended July 31** (Unaudited)

	<u>1979</u>	<u>1978</u>
Sales	\$5,329,090	\$4,159,313
Cost of sales including selling and administrative expenses	3,928,491	3,072,095
Research and development expenses	529,267	399,386
Depreciation and amortization	218,207	189,887
Interest on long-term debt	26,417	26,686
Other interest	37,337	39,842
	<u>4,739,719</u>	<u>3,727,896</u>
Less research and development grants	86,843	72,416
	<u>4,652,876</u>	<u>3,655,480</u>
Income before income taxes	676,214	503,833
Income taxes	276,000	194,000
Income before extraordinary item	400,214	309,833
Extraordinary item:		
Income tax reduction arising from utilization of prior years' losses	20,000	73,000
Net income	<u>\$ 420,214</u>	<u>\$ 382,833</u>
Number of common shares outstanding	883,241	873,241
Income per common share (after preference share dividend requirements of \$9,825):		
Income before extraordinary item	\$ 0.44	\$ 0.34
Net income	\$ 0.46	\$ 0.43